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DEPT PASS TO DEPT OF TREASURY WLMCDONALD

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TAGS: [EFIN](#) [ETRD](#) [ECON](#) [PGOV](#) [EINV](#) [RW](#)  
SUBJECT: TREASURY DAS MCDONALD VISITS RWANDA

REF: A. KIGALI 158  
[B](#). KIGALI 141

Classified By: CDA Cheryl J. Sim for reasons 1.4 (b and d)

[1](#). (U) Summary and Introduction: U.S. Department of Treasury Deputy Assistant Secretary (DAS) for International Affairs and Technical Assistance Policy visited Kigali March 15-16. He heard mixed reviews on Rwanda's economy and business climate from government officials, commercial bankers, international organizations and private sector investors. Generally positive reports on Rwanda's macro-economic performance and effective Central Bank implementation of IMF recommendations, were offset by liquidity concerns voiced by commercial bankers and private sector complaints of weak post-investment support from government agencies. McDonald reviewed with Embassy PEPFAR team possible Treasury assistance for financial-planning capacity building in the health sector. End Summary.

#### Positive Macro-economic Results

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[2](#). (SBU) During their March 16 meeting, DAS McDonald commended Central Bank Governor Francois Kanimba on recent favorable IMF reporting on Rwanda (ref a), noting the Government of Rwanda (GOR) has successfully legislated good monetary policy and moved quickly to implement those policies. McDonald rhetorically asked if "there is any work for us to do here" given Rwanda's success in achieving macro-economic stability and effective implementation of sound fiscal policies. Considering the current downturn in global markets, McDonald said Rwanda could face emerging challenges in balancing high growth and fiscal stability, suggesting the country would benefit from new financial instruments, sources of capital and better access to debt markets.

[3](#). (C) Governor Kanimba accepted that Rwanda had achieved good macro-economic results, but said "we can't be complacent as there remain serious challenges and imbalances (in the economy)." Kanimba said the country's "aid dependency" is not sustainable. The Governor reflected that while the economy has grown steadily since 2001, the current pattern of growth could not be maintained given the narrow export base and weak manufacturing sector. The government's focus on ICT and tourism by themselves "probably cannot support poverty reduction."

¶4. (U) McDonald and Kanimba agreed regional integration -- including the free movement of goods, services and labor -- was critical to Rwanda's economic development. The Governor noted Rwanda was well situated to serve as a regional trade hub for the Eastern Democratic Republic of Congo (DRC), western Tanzania and southern Uganda and said there was already significant cross-border trade in food products, especially to the DRC and to Sudan.

¶5. (C) Turning to the banking sector, the Governor told McDonald the sector was performing well by regional standards and had improved dramatically over the last five years. Kanimba attributed the strong performance to Central Bank reforms including high capital-adequacy requirements, new licensing requirements and new investment by regional banks such as FinaBank, Ecobank and Accessbank in the Rwandan market. The Governor admitted the banking sector faces Qmarket. The Governor admitted the banking sector faces challenges due to a significant mismatch between the sector's short-term deposit base and the markets demand for long-term credit. McDonald and Kanimba agreed that this challenge could only be overcome by developing longer-term sources of financing such as insurance and pension funds and by extending banking services into rural areas where significant levels of capital remain outside the banking sector. The Governor said the government is addressing these issues by restructuring the social security fund, encouraging private pension funds, proposing universal medical insurance to coax savings out of the non-formal sector, introducing rural savings and credit institutions and "mobile" (traveling) banks to service rural areas.

¶6. (C) In a separate meeting, John Rwangombwa, Permanent Secretary Ministry of Finance and Economic Planning, agreed with the Governor's comments on the need to develop longer-term financing sources. Rwangombwa noted that from 2005-2008 the Rwandan treasury did not need any financing from the market, but admitted that "2009 looks nothing like 2008." The Permanent Secretary said the current liquidity shortage presents higher risks to the economy than excess liquidity (the prevailing condition prior to this year). He stated longer-term financing sources will also be needed to support the country's infrastructure development. Both the Governor and Permanent Secretary asked DAS McDonald to consider sending a Treasury technical advisor in Rwanda for longer periods (Note: currently the Treasury Technical Advisor is based in Nairobi and only visits Rwanda for a few days at a time) as the monetary challenges are complex and require more time for consultation and training.

#### Commercial Bankers Confirm Tight Liquidity

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¶7. (C) At a March 15 dinner, commercial bankers confirmed liquidity shortages in Rwanda's financial markets were hurting their business. Steve Caley (protect), CEO of Finabank told McDonald he was forced to scale back on lending due to liquidity shortages in the market and claimed interest rates for short-term money had also shot up in January. Caley said "demand for credit exceeds supply" and agreed commercial banks face a challenge in balancing short-term deposits with demand for longer-term credit. Most commercial banks only lend for short-term trade and receivable finance with limited exposure to mortgages or construction finance. Caley said mortgage lending in Rwanda is complicated by the uncertain value of collateral and largely untested foreclosure laws.

¶8. (C) Caley and others present doubted whether the local financial sector would be able to respond to requests for infrastructure development finance including project finance and/or public private partnerships. Caley noted the total capitalization of the banking sector is less than \$50 million and as a result local banks lack the capital and capacity to engage in infrastructure/project finance.

## Post-Investment Government Support Criticized

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¶9. (C) Members of the private sector candidly discussed their concerns about the Rwandan investment climate during a March 16 lunch. Two long-term investors criticized the government's insensitivity to private sector concerns and said Rwanda lacks "business security." The Kobil (the largest gas distribution company in Rwanda) representative (protect) said the GOR should stop trying to attract new investors until it can adequately protect and support existing investors. He complained that top government decision-makers were unwilling to meet with him to resolve outstanding investment concerns (such as a \$3.5 million tax dispute), but always seemed ready to meet with relatively unknown companies and NGO's with limited financial commitment to Rwanda. He also asserted that for the first two years a company works in Rwanda, all is well. After that, the Rwanda Qcompany works in Rwanda, all is well. After that, the Rwanda Revenue Authority and other government agencies place numerous financial and accounting burdens on investors without providing mechanisms for investors to seek redress. He suggested that the Rwanda Development Board (RDB) needs to focus on these issues along with trying to attract new investment.

¶10. (C) The Country Director of an American consulting firm (protect) agreed that access to top-government officials by established investors was often difficult. Too often government officials waste valuable time hosting "investors" who have limited capacity to work in Africa and lack clear business objectives. He blamed some of this on "poor vetting" by lower-level GOR officials. (Note: The CEO of Contour Global, who recently signed a \$325 million energy project with the GOR -- ref b, said their deal was delayed several months due to GOR decision-makers being distracted and unable to focus on the Contour Global project due to a constant stream of potential investors who "were never going to invest in the country." The Contour Global CEO described these unfocused efforts of the RDB to attract investment as an "institutional tax" on bona fide investors. End note.)

¶11. (C) The Managing Director (protect) of American-owned Sorwathe tea factory (Sorwathe has been in business in Rwanda since 1975, the managing director has been in country since 1978) concurred that there is a lack of consistent Rwandan government support for existing investors. He cited his own recent experience negotiating "green leaf" tea pricing with the GOR as an example of how the government treats investors unfairly and in a non-transparent fashion. He added that a number of GOR senior officials, including the Minister of Agriculture, grow tea and have a personal interest in negotiating higher prices from the factories.

PEPFAR

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¶12. (SBU) DAS McDonald briefed the Embassy PEPFAR team on recent Congressional legislation giving Treasury authority (but not funding) to offer technical assistance in budget management to government recipients of PEPFAR. McDonald confirmed Treasury could be helpful in addressing GOR decentralized budget issues and suggested a visit by a Treasury budget specialist to evaluate Rwanda's needs. Post welcomes this assistance.

¶13. (C) Comment: DAS McDonald's visit provided an excellent opportunity to review Rwanda's fiscal and macro-economic performance that has provided the country with a solid base to expand investment, build infrastructure, expand exports and position itself as an economic hub for the central Great Lakes region. While the fiscal and monetary foundation of the economy is solid, more work needs to be done to support long-term investors.

¶14. (U) DAS McDonald has not cleared on this cable.  
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